Nova Scotia Municipal Finance Corporation

31st
Annual Accountability Report
2011

Nova Scotia

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Message from the Chair

As Chair of the Nova Scotia Municipal Finance Corporation (MFC) it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 31st Annual Report for the 2010–11 fiscal year.

Debenture Issues and Short-Term Financing

The primary goal of the Corporation is to provide the lowest possible long-term and short-term interest rates to its clients. In 2010–11, the Corporation was able to achieve this goal though its annual debenture issuance. The Corporation placed two debenture issues for $57.5 million, and $61.5 million, resulting in total long-term loan activity of $119.0 million during the fiscal year. The Corporation issued $2.4 million in short-term loans in 2010–11, and ended the fiscal year with a net income of $84,441.

Accomplishments

This has been a busy and productive year at the Municipal Finance Corporation. With the assistance of consultants, the governance structure of the Corporation was reviewed. It was determined that the current structure will continue for the next five years at which time governance will be revisited.

A new Board of Directors was appointed in October and includes three new members. The Board has been expanded from five to six members. The additional director is appointed on the recommendation of the Association of Municipal Administrators of Nova Scotia. This allows for increased municipal input into the strategic direction of MFC. Furthermore, this year saw the inception of the Corporation's Audit Committee, which has brought greater accountability to the Municipal Finance Corporation and its clients.

An orientation session for the new board was held in December and a strategic planning session was held in January. These two sessions were valuable learning experiences for the Board and staff and enabled the Board to set the direction of the Corporation for the next five years.

At this time I would like to thank the Board Members, the staff of the Corporation and the staff of the Provincial Departments of Service Nova Scotia & Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.

Kevin Malloy, CA
Chair

How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation can be found in the *Municipal Finance Corporation Act*.

Mission and Purpose

The mission of the Corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters and to provide advice and assistance to clients regarding financial management.

The Corporation was created to provide financial assistance for municipalities, municipal enterprises, school boards, and hospitals through a centralized borrowing authority. The Corporation fulfils its purpose through the issuance of pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Exceptions exist where funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The Corporation partners with the Association of Municipal Administrators of Nova Scotia and Service Nova Scotia and Municipal Relations, as well as with other professional associations in the building of financial management capacity in local governments across Nova Scotia.

Administration

The Corporation is governed by a Board of Directors appointed by the Governor in Council. *The Municipal Finance Corporation Act* requires that 40 per cent of the Board be municipal representatives. There are currently six Directors on the Board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities, the fifth member is appointed from the community at large, and the sixth member is appointed upon the recommendation of the Association of Municipal Administrators of Nova Scotia.

The Corporation is completely self funded. The Minister of Service Nova Scotia and Municipal Relations is required, by legislation, to approve the annual administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation. These fees coupled with interest revenue earned by the Corporation on short term investments ensure that the Corporation operates in a positive position.

Support staff and resources of the Provincial Departments of Finance and Service Nova Scotia and Municipal Relations have been provided to the Corporation. The Corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments is a valuable contribution to the operation of the Corporation.

Office location:
Suite 1501, Maritime Centre
1505 Barrington Street
Halifax, Nova Scotia B3J 3K5

Mailing address:
P.O. Box 850, Station "M",
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-6333
Fax: (902) 424-0525
Website: http://www.nsmfc.ca

Directors and Officers *(as at March 31, 2011)*

Janet Murphy, Byron Rafuse, Keith Hunter, Mark Britney, Cathie Osborne. Not shown Kevin Malloy, Chair.

Directors of the Corporation

Kevin Malloy, CA, Chair
Deputy Minister
Service Nova Scotia and Municipal Relations

Marc Britney
Councillor
Town of Middleton

Keith Hunter
Warden
Municipality of the County of Cumberland

Janet Murphy
Consultant
Halifax, Nova Scotia

Cathie Osborne
Deputy Auditor General
Halifax Regional Municipality

Byron Rafuse, CMA
Associate Deputy Minister
Department of Finance

JANET MURPHY is an independent Financial Services Consultant with a Masters Degree in Business Administration from Saint Mary's University and a BA in Economics from Memorial University. Her career in financial management of over 20 years has included Business Manager for the Hydro Production Division of Nova Scotia Power and Controller for the Nova Scotia Barristers' Society. She has volunteered on various committees including the Professional Development Committee of the Human Resources Association of Nova Scotia (HRANS), Dr. P. Anthony Johnstone Scholarship Committee, Student Advisory Council for Beechville Middle School and serves the Roman Catholic Archdiocese of Nova Scotia. She was appointed to the Municipal Finance Corporation's Board of Directors as the Member at Large in 2010.

KEITH HUNTER graduated from Dalhousie University with a BSc in 1969. From 1969 to 2006 he owned Jerry's Supermarket in Amherst, Nova Scotia. In 1991 Keith was elected to the Council of the Municipality of Cumberland (presently in his sixth term), and served as Deputy Warden from 1998 to 1999. In 2000 he was elected Warden of Cumberland County. Keith has also served on various boards, such as Board Member and Chair, Athol Forestry Cooperative (1991–2007); Board Member of Nova Scotia Municipal Finance Corporation (2005–present); Board Member of Central Nova Tourist Association

(1991–2001); Board Member of the Federation of Canadian Municipalities (FCM) as Chair of the Atlantic Caucus (2006–2007); Past Chair of Cumberland Joint Services Management Authority (Solid Waste); Past Chair, Entrance Development Committee, a sub-committee of Cumberland Regional Economic Development Association (CREDA), established to beautify the area between the Nova Scotia/New Brunswick border and the Town of Amherst to attract more tourists to Amherst and the Sunrise and Glooscap Trails; Chair, North Tyndal Wellfield Advisory Committee (1992–2006). From 2006 to 2010 Keith served on the Union of Nova Scotia Municipalities (UNSM) Board of Directors, serving as its Rural Caucus Chair from 2008 to 2010.

On December 8, 2008, KEVIN MALLOY was appointed Deputy Minister of Service Nova Scotia and Municipal Relations (SNSMR). Kevin joined SNSMR in November of 2004 to fill the Assistant Deputy Minister position. Prior to joining SNSMR, Kevin took over the responsibilities of Controller for the Province of Nova Scotia on July 19, 1999. As the senior financial position in government, the Controller is responsible for leading and directing the corporate financial systems, including accountability control systems; the central accounting system; the Internal Audit function; internal and external reporting systems and government payroll services.

Prior to being appointed Controller, Kevin was Director of Finance for the Department of Transportation and Public Works. Kevin joined government in 1984 where he spent five years with the provincial Auditor General's office, and subsequent to those, nine years with the Department of Education.

Kevin is Past President of the Institute for Citizen Centred Service and a member of the Institute of Chartered Accountants of Nova Scotia. He also serves as Past President of the Financial Management Institute (Halifax Chapter) and is on a number of boards.

BYRON RAFUSE was appointed Controller for the Province of Nova Scotia in June 2005, and additionally as Associate Deputy Minister of Finance in March 2010. Byron has more than 25 years of experience with the provincial government, where he has held several senior financial and program positions within the departments of the Solicitor General, Justice, Finance and Health. Byron's previous work experience includes the role of the lead accounting and financial position for several government departments. He has also participated in the development of the corporate budget for the Province of Nova Scotia.

Byron graduated from Saint Mary's University with a Bachelor of Commerce. He is a Certified Management Accountant and currently on the Board of the Nova Scotia Society of Management Accountants, as well as various other boards and trustees.

MARC BRITNEY graduated from Dalhousie University with a Bachelor of Arts in 1987 and earned his Certified Financial Planner designation in 1998. Marc has been a financial planner and branch manager with SISIP Financial Services since 2001. Marc was first elected to the Council of the Town of Middleton in 1993 and has served on various boards and committees during his terms on Council. Marc was appointed to the Municipal Finance Corporation Board of Directors on the recommendation of the Union of Nova Scotia Municipalities in 2010.

CATHIE OSBORNE began municipal service in 1979 with the City of Dartmouth. With over 30 years of experience in municipal government, Cathie brings a wealth of public sector experience to the Board. She is a graduate of Saint Mary's University, where she earned her Bachelor of Commerce degree and Certificate in Human Resource Management in 1999. Cathie achieved her Certified General Accountant designation in 2002 and has held the position of Deputy Auditor General for the Halifax Regional Municipality (HRM) since April 1, 2010. Her prior responsibilities included the establishment and management of the first internal audit function in HRM and operational responsibility for general revenues.

Officers of the Corporation

Chair
Kevin Malloy, CA
Deputy Minister
Service Nova Scotia and Municipal Relations

Chief Executive Officer and Treasurer
Bob A. Houlihan, CGA
Nova Scotia Municipal Finance Corporation

Corporate Secretary
Paul Wills, CMA
Municipal Advisor
Service Nova Scotia and Municipal Relations

General Counsel
Jennifer Glennie
Department of Justice

Assistant Treasurer
Roy Spence
Director, Liability Management &
Treasury Services
Department of Finance

PAUL WILLS is currently a Municipal Advisor with Service Nova Scotia and Municipal Relations with the Province of Nova Scotia and has been in this role since September 2008. Prior to this he was the Manager, Municipal Finance, with the same department. He graduated from Saint Mary's University in 1987 and obtained his Certified Management Accountant (CMA) designation in 1994. Paul worked with the County of Kings where he was employed as the Chief Accountant for eight years. From there, he moved to the Town of New Glasgow in the role of Director of Corporate Services for two years before accepting the Manager's position with the Province. Paul is the past chair of the Tangible Capital Asset Committee for Nova Scotia and the past chair of the Financial Reporting and Accounting Manual Committee.

JENNIFER GLENNIE is a solicitor with Legal Services who joined the Justice team in July of 2008. Before joining Justice, Jennifer was a partner, practicing corporate and commercial law, with a large Atlantic Canadian firm. She is currently serving the Department of Finance, Municipal Finance Corporation, as well as crown corporations and agencies for which the Minister of Finance is responsible. Jennifer is a Peer Volunteer and Committee Member of the Lawyers' Assistance Program and Chair of Justice's Head Office Healthy Workplace Committee.

ROY SPENCE joined the Department of Finance in October 1998 as the Director, Liability Management and Treasury Services. Prior to joining the Province of Nova Scotia, Roy was the Director of Fiscal Management in the Provincial Treasury, Province of Prince Edward Island. That position had responsibility for liability management and other finance functions.

Roy graduated from Lakehead University with a Master of Arts degree in Economics. He also taught both graduate and undergraduate courses in economics for a number of years prior to joining the public service.

Staff of the Corporation

Chief Executive Officer
Bob Houlihan, CGA

Manager of Financial Services
Bob Audoux, CGA

Manager of Client Services
Melissa Mosher, MPA

Administrative Assistant
Margo Horne

Summer Student
Shira Babins

Bob Audoux (Manager of Financial Services), Margo Horne (Administrative Assistant), Bob Houlihan (Chief Executive Officer), Melissa Mosher (Manager of Client Services)

BOB HOULIHAN has been employed in the government finance field for 25 years. He has held various positions with the City of Halifax, Halifax Regional Municipality and the provincial government, including Municipal Advisor with Service Nova Scotia and Municipal Relations and Senior Corporate Financial Analyst with the Treasury Board Office. Bob was appointed CEO and Treasurer of Municipal Finance Corporation in October of 2010. He has a Bachelor of Commerce from Saint Mary's University and is a Certified General Accountant.

BOB AUDOUX has been employed by the Nova Scotia Municipal Finance Corporation for over 13 years. In addition to Bob's many years of service with the NSMFC, he has many years of previous experience working for the Provincial government and private sector. Bob recently completed his Certified General Accounting designation in 2009.

MARGO HORNE has over 30 years of experience working with municipalities and with the Province of Nova Scotia. She has extensive experience in working with municipal finance and administration.

MELISSA MOSHER has been employed by the Provincial Government since 2006, where she began her career at the NSMFC as the Manager of Client Services. During her time at NSMFC, she had the opportunity to take a 15 month secondment with the Municipal Services Division of Service Nova Scotia and Municipal Relations. Melissa earned her Bachelor of Arts from the University of Manitoba (2004) and her Master of Public Administration from Dalhousie University (2006).

SHIRA BABINS is the 2011 Master of Public Administration student summer intern. A Chartered Accountant, Shira worked in public accounting for five years prior to joining the Master of Public Administration program at Dalhousie University. She possesses a Bachelor of Commerce from Dalhousie University and a Master of Management and Professional Accounting from the University of Toronto.

Directors' Report

Planning for the Corporation is formulated in accordance with the needs of its clients. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the Corporation meets the demand for capital infrastructure financing, the Corporation's Board of Directors approves a Business Plan on an annual basis.

Business planning is an evolving process. Outcomes, measures, and indicators are evaluated during the course of the year for effectiveness and responsiveness to the Corporation's longer-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility, and the Corporation can influence the outcome and the Corporation's performance can be measured.

The strategic goals of the Corporation are supported by the operational priorities. The operational context for the Corporation's activities is strongly influenced by the ability to:

- Identify its client needs and respond to them
- Keep abreast of developments in local government capital finance
- Maintain financial self sufficiency

The Annual Report reflects the Corporation's results as measured against the 2010–2011 Business Plan. Along with measuring the longer-term strategic goals of the Corporation, operational results are included, which are important in ensuring that the Corporation can meet its priorities and goals.

Business Plan and Strategic Goals

Strategic Goal 1

To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.

Outcome: Competitive financing to our clients in a timely and responsive manner

Measures: Client satisfaction rates with cost, timing, term and structure of MFC loans

Targets: A 90% to 100% client satisfaction rate by fiscal 2010–2011. Regular review of loan procedures and maintaining credit enhancement through access to the provincial guarantee

Operational results:

- Issued 36 loans to 23 municipalities, and 4 municipal enterprises.
- Issued $119.0 million in debentures and on-loaned a similar amount to clients
- Administered $4.7 million in short-term financing pending issuance of a debenture
- Administered $756.6 million in outstanding loans to municipalities and hospitals
- Our 2011 survey of clients indicated an 80% satisfaction rate with timing of debentures and an 87% satisfaction rate with term and structure of loans.

Strategic Goal 2

To ensure access to capital markets through prudent management of all financial aspects of the Corporation that includes credit risk and asset/liability management.

Outcome: Ensure that a sustainable source of funding is available for financing requests from clients and to ensure the operation of the Corporation.

Measures: Client default rates, matching of assets and liabilities, and adoption of a risk management strategy.

Targets: No defaults, maintain matched asset and liability amounts, adopt risk management plan.

Operational results:

- Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to municipalities did not pose a credit risk to the Corporation
- Managed assets and liabilities of the Corporation to mitigate risk and to ensure that the Corporation did not incur any negative carry costs
- Managed the administration budget of the Corporation prudently and ended the fiscal year with a net income of $84,441 and a reserve fund balance of $6.4 million
- A risk management framework adopted

Strategic Goal 3

To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Outcome: Client awareness of new financial products and features that may help municipal governments; improved MFC products that respond to client needs; and increased financial management knowledge in municipalities.

Measures: Percentage of municipalities that are satisfied with products being offered by the MFC, and existence of effective programs directed at client needs.

Targets: A 95% to 100% client satisfaction rate by fiscal 2010-2011. Development of programs that meet client needs.

Operational results:

- Encouraged the implementation of recommended practices of the Financial Management and Capacity Building Committee in Nova Scotia municipalities.
- Continued promoting the MFC's debt affordability model to municipalities.
- Sponsored a finance professional in a municipality to attend the annual Government Finance Officers Association Conference
- Participated in the Association of Municipal Administrators of Nova Scotia's Municipal Finance Officers forum
- Overall client satisfaction rate as measured in our 2011 survey of clients was 92%
- In cooperation with Dalhousie University sponsored workshops on municipal finance for elected and non-finance administrative officials

Market Conditions 2010–2011

The global economy recovered strongly in 2010, growing 5% compared to a contraction in real GDP of 0.5% in 2009, according to the IMF. The pace of the recovery across economies, however, was uneven, with the advanced economies expanding by an estimated 3% and emerging market and developing economies growing by 7.3%. The pace of growth slowed somewhat since summer 2010, as inventory restocking carried out in the early phase of economic recovery running its course and the fiscal policy stimulus measures replaced with "fiscal consolidation". By region, the US economy continued to recover at a moderate pace, led in particular by exports, however, the US appears to have been on a slowing trend since around mid-2010 mainly due to the waning effects of fiscal stimulus measures amid a lack of momentum in private consumption and housing investment. Economic activity in Europe recovered moderately on the whole, but differences in the pace of recovery between some countries, including Germany at a relatively fast pace, and peripheral countries struggling with fiscal consolidation measures. Emerging and commodity-exporting economies, led mainly by robust domestic demand, continued to grow at a relatively rapid pace, although it started to slow somewhat partly due to the shifting away from accommodative monetary policies.

The Canadian economic recovery continued in 2010 with real GDP expanding by 3.1% (after contracting by 2.5% in 2009), although the pace of growth slowed in the middle of the year before picking up again in the fourth quarter. In 2010, the main drivers of economic growth included rising commodity prices as well as the strengthening of private and export demand, which contributed to 8.3% growth in exports by volume over 2009. Despite many claims that it was not as badly affected by the global recession as other industrialized economies, Canada's real GDP growth followed a very similar pattern to those nations that were more severely impacted by the recession.

The Canadian dollar appreciated against the US dollar for most of 2010, trading in a narrow band between 92.78 cents US and 1.0054 cents US. Since the end of December 2010, the Canadian dollar has closed above parity on all but two occasions, reaching a high of 1.054 cents US. This increase in the Canadian dollar can be attributed to Canada's relatively strong economic and fiscal position, and uncertainty related to other developed economies. This sustained strength in the Canadian dollar is expected to continue despite the global economic recovery, as rising commodity prices for oil and other raw materials, and the positive interest rate differential in short-term bonds between Canada and the United States.

Interest Rates

In response to the credit crisis of 2008 and 2009, most monetary authorities maintained administered interest rates at near zero levels. The Bank of Canada held administered interest rates at near zero levels from early 2009 to the second half of 2010. The Bank of Canada raised the target for the overnight rate in 2010 by 25 basis points in each of the meetings in June, July and September, for a total of 75 basis points. The Bank of Canada left administered interest rates at 1% since September stating that while global economic conditions, and conditions in Canada, are improving, the risk remained elevated due to sovereign debt issues and supply shocks from rapidly rising commodity prices.

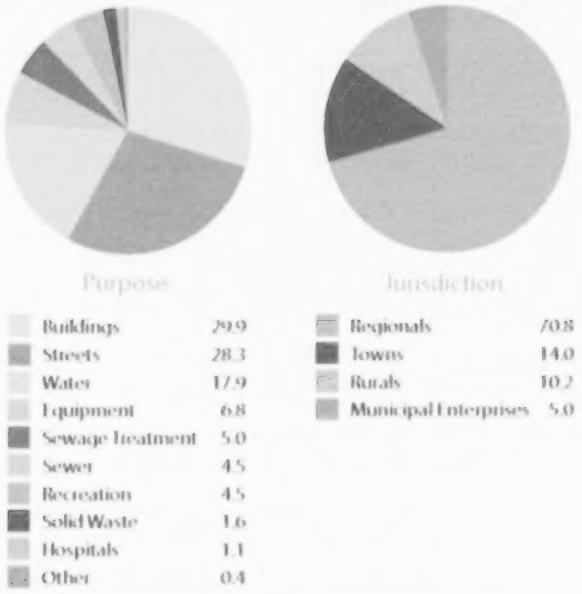
While both the spring and fall 2010 MFC debt issues were 1 to 15 year serial debentures, the 10 year sector provides an indication of the changes in yields on these issues. Over fiscal year 2010-11, the Canada 10-year bond yield ranged from a low of 2.68% to a high of 3.72%, averaging 3.20% over the entire fiscal year. The all-in yield for the 2010 spring issue was 4.27%, relatively high compared to the fall issues in 2009 and 2010, as the Government of Canada bond 10 year yield was above the average for the year at 3.30%. The fall issue had an all-in yield of 3.19%, a record low interest cost for the Municipal Finance Corporation. In large part, the low yield on the fall issue was due to very low Government of Canada bond yields — 2.79% in the 10 year term, and the Nova Scotia provincial 10 year credit spread near the average of 82 basis points for the fiscal year. The all-in cost of borrowing for the Municipal Finance Corporation remained attractive throughout the fiscal year by historical standards.

The Corporation issued two pooled debenture issues in 2010-11. The all-in costs of funds to our clients are detailed below:

Spring Issue		**Fall Issue**	
settled June 29, 2010		*settled November 9, 2010*	
5 years	3.13%	5 years	2.43%
10 years	3.96%	10 years	3.25%
15 years	4.40%	15 years	3.79%
20 years	4.60%	20 years	4.04%
All-in cost	4.34%	All-in cost	3.28%

Overview of Loan Portfolio

Loans Made during the Year



NOTE: The amount of debentures issued during the year approximates the long-term loans made.

Loans to Municipal Units, School Boards and Hospitals

The Corporation's loan portfolio consists of loans to municipalities and municipal enterprises that are serviced or guaranteed by Nova Scotia municipalities, school boards that are supported by the Province of Nova Scotia, and hospitals/health authorities guaranteed by the Province. There are no arrears.

Service Nova Scotia and Municipal Relations performs the credit checks using debt policy guidelines approved by the Minister. The Minister approves all capital borrowing requests by municipalities and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long-term loans totalling $119 million were made to 23 municipalities, and 4 municipal enterprises. They were used for the purposes as shown below.

Schedule of New Loans by Purpose *(by Jurisdiction)*

Purpose	Regional	Town	Rural	Municipal Enterprises	Total	Percent
Water	15,000,000	3,793,275	91,800	2,390,000	21,275,075	17.9%
Hospitals	—	1,100,000	200,000	—	1,300,000	1.1%
Sewer	1,202,244	2,216,803	1,916,903	—	5,335,950	4.5%
Streets	29,541,875	4,008,250	197,000	—	33,747,125	28.3%
Buildings	31,000,170	1,684,145	2,673,000	203,000	35,560,315	29.9%
Land	—	27,200	431,101	—	458,301	0.4%
Equipment	5,994,794	1,194,837	938,678	—	8,128,309	6.8%
Recreation	1,531,917	249,200	3,588,050	—	5,369,167	4.5%
Solid Waste	—	—	1,861,000	—	1,861,000	1.6%
Sewage Treatment	—	2,300,000	265,000	3,400,000	5,965,000	5.0%
General	—	45,000	—	—	45,000	0.0%
Totals	**$84,271,000**	**$16,618,710**	**$12,162,532**	**$5,993,000**	**$119,045,242**	
Percent	**70.8%**	**14.0%**	**10.2%**	**5.0%**	**100%**	

Year ended March 31, 2011

The accumulated loans outstanding at March 31, 2011 amounted to $756.6 million, comprising $748.1 million to 72 municipalities and municipal enterprises and $8.5 million to two district health authorities. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction.

The table at the right shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Outstanding Borrowing Program

Funds totalling $119.0 million for loans to municipalities and municipal enterprises were raised through two issues in the Canadian domestic market. The two issues were placed privately with the Province of Nova Scotia which purchased a $57.5 million issue in June 2010 and a $61.5 million issue in November 2010. Interest rate coupons ranged from 1.51 per cent to 4.875 per cent.

Ten-Year History of Loans to Municipal Units, School Boards and Hospitals

New Long Term Loans during the Year
Fiscal year ending at March 31st ($ millions)

Year	Municipal	Hospitals	School Boards	Total
2002	49.9	—	—	49.9
2003	84.6	11.0	—	95.6
2004	73.1	—	—	73.1
2005	167.7	—	—	167.7
2006	112.0	—	—	112.0
2007	108.3	—	—	108.3
2008	139.5	0.5	—	140.0
2009	110.9	—	—	110.9
2010	114.2	—	—	114.2
2011	119.0	—	—	119.0

Loans Outstanding at Year End
At March 31st ($ millions)

Year	Municipal	Hospitals	School Boards	Total
2002	452.2	10.9	18.7	481.8
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3
2006	611.1	10.2	—	621.3
2007	632.4	9.8	—	642.2
2008	679.6	9.9	—	689.5
2009	700.3	9.5	—	709.8
2010	719.5	9.0	—	728.5
2011	748.1	8.5	—	756.6

Schedule of Outstanding Loans

Year ended March 31, 2011

By Jurisdiction	Principal March 31/10	New Loans	Principal Repaid	Principal March 31/11
Regional Municipalities				
Halifax	$335,477,594	$47,125,000	($45,965,506)	$336,637,088
Cape Breton	105,186,509	37,146,000	(12,470,973)	129,861,536
Queens	5,097,037	—	(840,526)	4,256,511
Total Regional Municipalities	**$445,761,140**	**$84,271,000**	**($59,277,005)**	**$470,755,135**
District Health Authorities	**$9,030,681**	—	**($500,087)**	**$8,530,594**
Towns				
Amherst	$7,052,951	—	($767,883)	$6,285,068
Annapolis Royal	406,500	—	(99,300)	307,200
Antigonish	3,713,002	—	(346,502)	3,366,500
Berwick	2,368,202	—	(280,029)	2,088,173
Bridgetown	1,188,758	—	(148,201)	1,040,557
Bridgewater	8,307,700	142,000	(1,168,100)	7,281,600
Canso	871,176	—	(65,252)	805,924
Clark's Harbour	280,000	—	(20,000)	260,000
Digby	1,383,790	67,996	(202,074)	1,249,712
Hantsport	1,867,368	642,000	(147,683)	2,361,685
Kentville	7,372,610	1,108,200	(914,500)	7,566,310
Lockeport	397,149	—	(59,395)	337,754
Lunenburg	2,264,500	240,000	(217,500)	2,287,000
Mahone Bay	950,600	—	(61,400)	889,200
Middleton	829,213	116,600	(256,584)	689,229
Mulgrave	302,000	50,000	(69,000)	283,000
New Glasgow	5,124,557	4,731,564	(2,554,248)	7,301,873
Oxford	1,515,052	—	(271,776)	1,243,276
Parrsboro	17,372	—	(8,686)	8,686
Pictou	1,152,500	2,560,000	(94,500)	3,618,000
Port Hawkesbury	7,738,310	—	(618,545)	7,119,765
Shelburne	1,152,191	72,030	(139,891)	1,084,330
Springhill	4,924,290	650,000	(612,263)	4,962,027
Stellarton	13,997,186	—	(700,543)	13,296,643
Stewiacke	2,544,284	—	(192,936)	2,351,348
Trenton	32,025	—	(4,575)	27,450
Truro	12,202,000	1,300,000	(840,000)	12,662,000
Westville	1,361,973	247,500	(128,079)	1,481,394
Windsor	4,651,239	3,761,820	(295,739)	8,117,320
Wolfville	3,500,419	929,000	(1,168,677)	3,260,742
Yarmouth	5,861,687	—	(698,340)	5,163,347
Total Towns	**$105,330,605**	**$16,618,710**	**($13,152,201)**	**$108,597,114**

Schedule of Outstanding Loans *continued*

By Jurisdiction	Principal March 31/10	New Loans	Principal Repaid	Principal March 31/11
Rural Municipalities				
Annapolis	$4,106,500	—	($461,000)	$3,645,500
Antigonish	2,931,264	—	(161,567)	2,769,697
Barrington	1,116,500	—	(143,634)	972,866
Chester	5,231,281	1,906,000	(1,547,150)	5,590,131
Clare	2,968,750	—	(243,750)	2,725,000
Colchester	12,282,352	—	(1,675,371)	10,606,981
Cumberland	896,479	173,700	(140,252)	929,927
Guysborough	1,918,500	—	(127,900)	1,790,600
Hants East	24,434,821	5,678,670	(1,399,802)	28,713,689
Hants West	843,700	2,226,000	(87,700)	2,982,000
Inverness	1,600,000	—	(200,000)	1,400,000
Kings	8,411,750	1,029,683	(1,480,550)	7,960,883
Lunenburg	14,621,900	1,148,479	(925,800)	14,844,579
Pictou	90,760	—	(44,354)	46,406
Richmond	3,403,040	—	(364,979)	3,038,061
Shelburne	308,473	—	(83,891)	224,582
Victoria	1,084,500	—	(133,500)	951,000
Yarmouth	3,350,000	—	(167,500)	3,182,500
Villages				
Baddeck	$860,127	—	($67,518)	$792,609
Bible Hill	144,000	—	(36,000)	108,000
Chester	88,000	—	(11,000)	77,000
Kingston	304,000	—	(56,000)	248,000
Lawrencetown	76,500	—	(8,500)	68,000
St. Peter's	337,733	—	(39,500)	98,233
Port Williams	408,000	—	(51,000)	357,000
Westport	40,000	—	(5,000)	35,000
Weymouth	140,000	—	(17,500)	122,500
Total Rural Municipalities	**$91,998,930**	**$12,162,532**	**($9,680,718)**	**$94,480,744**
Municipal Enterprises				
Bridgewater Public Service Commission	$3,305,000	$560,000	($318,500)	$3,546,500
Digby Area Recreation	240,000	—	(30,000)	210,000
Digby Housing Corporation	523,500	—	(30,000)	493,500
Glen Haven	805,100	—	(46,000)	759,100
Halifax Regional Water Commission	67,532,765	5,150,000	(7,311,165)	65,371,600
Lunenburg Home for Special Care	727,905	—	(50,925)	676,980
R.K. MacDonald	1,420,851	203,000	(292,291)	1,331,560
Seaview Manor	257,250	—	(85,750)	171,500
St. Peter's-Sampsonville Water Utility	1,400,000	80,000	(40,600)	1,439,400
Villa Acadienne	126,500	—	(61,300)	65,200
Total Enterprises	**$76,338,871**	**$5,993,000**	**($8,266,531)**	**$74,265,340**
Total Loans	**$728,460,226**	**$119,045,242**	**($90,876,542)**	**$756,628,926**

Other Programs

The Corporation offers borrowing programs beyond long-term financing via debenture issue and also offers financial management capacity building programs to assist municipalities with long-term financial planning.

Borrowing Programs

The Board of Directors has long supported a short-term borrowing program for its clients. The Corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital project and are awaiting participation in a debenture issue. Short-term loans are available for a period of not greater than one year; interest is charged at the Bank of Montreal's prime lending rate less 1 per cent. The Corporation loaned $2.4 million to 4 municipalities for various municipal capital related projects during 2010-2011.

Financial Management Best Practices

The Corporation and the Association of Municipal Administrators of Nova Scotia (AMANS) have a joint committee with the goal of developing financial management best practices for use by municipalities in Nova Scotia.

The committee strives to be representative of all municipalities in the Province. It includes finance professionals working in towns, regional and rural municipalities, as well as representatives from Service Nova Scotia and Municipal Relations. The committee uses recommended practices that have been developed by the Government Finance Officers Association (GFOA) and adapts them to fit Nova Scotia legislation and practices.

Long-Term Financial Planning

The Corporation developed a Debt Affordability Model to assist municipalities in capital planning and debt management. Several municipalities are currently using the model. Other municipalities have stated they are facing human resources and time constraints that limit their ability to fully utilize this tool to its full potential. During the current year, staff updated the Model with various enhancements based on feedback from municipalities.

Municipal Finance Training and Capacity Building Program

The purpose of the Municipal Finance Training and Capacity Building Program is:

- To enhance the quality of municipal financial services provided by local government finance professionals in Nova Scotia by exposing them to current issues, best practices, and trends in Canadian and international local government finance
- To encourage the development of a network of municipal finance specialists in Nova Scotia for the purpose of sharing knowledge and best practices
- To increase elected and non-finance administration officials' knowledge and understanding of municipal finance.

The Corporation sponsors a financial professional working in municipal government in Nova Scotia to attend the annual GFOA Conference. This international conference is dedicated to the development of financial excellence in local government, through the use of best practices and bench-marking.

Dalhousie School of Public Administration Internship Program

Every summer, the Corporation hires a Master of Public Administration student to lead a special project. The student conducts research, works closely with municipal and provincial stakeholders, and writes a final project report that will include recommendations and best practices regarding the project.

The 2010 summer intern led two projects, Financing Municipal Wastewater and LED Lighting. The Financing Municipal Wastewater project will help Service Nova Scotia and Municipal Relations understand how municipalities are currently financing their one-third share of wastewater infrastructure. The LED Lighting project looked at the viability of LED streetlights in Nova Scotia municipalities based on a number of variables including, the cost of retrofitting existing infrastructure, the availability of provincial and federal funding, borrowing from the Municipal Finance Corporation (MFC), municipalities' ability to borrow, and the cooperation of Nova Scotia Power Inc. – the owner of the majority of streetlights in the Province. Both wastewater infrastructure and LED lighting have a significant impact on municipal finances.

Staff Changes

After the completion of a governance structure study, the Municipal Finance Corporation Board of Directors issued an Expression of Interest to hire a new Chief Executive Officer.

Mr. Bob Houlihan was the successful candidate for the Chief Executive Officer position. Mr. Houlihan brings over 25 years of municipal experience to the Municipal Finance Corporation through his work in the former City of Halifax, and with Municipal Services Division of Service Nova Scotia and Municipal Relations as a municipal advisor. The Board of Directors would like to welcome Mr. Houlihan to the Municipal Finance Corporation.

Management's Responsibility for Financial Statements

The financial statements of the Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with Public Sector Accounting Board and Canadian Institute of Chartered Accountants accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, KPMG LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with Generally Accepted Accounting Principles. The Auditors Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The Board of Directors have approved the financial statements and all information in the Annual Report. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Independent Auditors' Report

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the accompanying financial statements of the Nova Scotia Municipal Finance Corporation which comprise the balance sheet as at March 31, 2011, and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Municipal Finance Corporation as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
June 10, 2011
Halifax, Canada

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Balance Sheet

March 31, 2011, with comparative figures for 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,440,526	$ 6,362,635
Accrued interest receivable	10,746,624	10,938,412
HST receivable	486	1,444
Accounts receivable		9,361
Principal due within one year on loans to units (note 2)	96,508,559	90,876,542
	113,696,195	108,188,394
Loans to units due beyond one year (note 2)	660,034,872	637,451,675
	$ 773,731,067	$ 745,640,069
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 50,449	$ 70,847
Accrued interest payable	10,734,037	10,933,171
Principal due within one year on debentures (notes 2 & 3)	96,508,410	90,882,065
	107,292,896	101,886,083
Employee obligations (note 4(a))	53,917	38,917
Debentures due beyond one year (note 3)	660,002,517	637,417,773
	767,349,330	739,342,773
Equity:		
Reserve fund	6,381,737	6,297,296
	$ 773,731,067	$ 745,640,069

See accompanying notes to financial statements.

On behalf of the Board:
Marc Britney, *Director*
Janet Murphy, *Director*

Statement of Revenue, Expenditure and Reserve Fund

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Interest on loans to units	$ 34,459,640	$ 35,195,535
Interest on short-term investments	72,497	20,864
Recovery of issue costs	365,703	364,409
Reserve fee	476,181	456,615
	35,374,021	36,037,423
Expenditure:		
Interest on debenture debt and short term loans	34,457,915	35,194,405
Debenture issue expenses	366,257	365,034
Administrative expenses	465,408	334,864
	35,289,580	35,894,303
Excess of revenue over expenditures	84,441	143,120
Reserve fund, beginning of year	6,297,296	6,154,176
Reserve fund, end of year	$ 6,381,737	$ 6,297,296

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 84,441	$ 143,120
Items not involving cash:		
Amortization of fair value adjustment on loans to units	(46,514)	(58,792)
Amortization of fair value adjustment on debenture debt	47,154	59,418
Increase (decrease) in employee obligations	15,000	(11,222)
Change in non-cash operating working capital (note 5(b))	(17,425)	151
	82,656	132,675
Financing:		
Issue of debentures	119,046,000	114,154,000
Principal payments on debenture debt	(90,882,065)	(95,569,268)
	28,163,935	18,584,732
Investments:		
Increase in loans to units	$ (119,045,242)	(114,153,814)
Decrease in loans to units	90,876,542	95,508,362
	(28,168,700)	(18,645,452)
Increase in cash and cash equivalents	77,891	71,955
Cash and cash equivalents, beginning of year	6,362,635	6,290,680
Cash and cash equivalents, end of year	$ 6,440,526	$ 6,362,635
Supplemental cash flow information (note 5)		

See accompanying notes to financial statements.

Year ended March 31, 2011

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority. The Corporation is not subject to provincial or federal taxes.

1. Significant accounting policies:

(a) Cash and cash equivalents:
Cash and cash equivalents include cash on hand, balances with banks, short term deposits with the Province of Nova Scotia with maturities of generally three months or less and any short term loans to municipal units.

(b) Loans to units:
Loans to units are recorded at amortized cost.

(c) Debentures:
Debentures are recorded at amortized cost.

(d) Reserve Fund:
The Reserve Fund was created from accumulated surpluses and interest on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

(e) Basis of presentation:
The Corporation recognizes income and expenses on an accrual basis.

(f) Use of estimates:
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Loans to units:

a) Loans to municipal units in Nova Scotia are made on the security of their debentures and are due in annual installments for periods up to a maximum of fifteen years. Interest rates on the loans range from 1.00% to 6.25%. The fair value of loans to units as at March 31, 2011 is $789,948,249 (2010 – $755,103,909).

	2011	2010
Loans to units	$756,543,431	$728,328,217
Less current portion	96,508,559	90,876,542
	$660,034,872	$637,451,675

b) Principal payments receivable from units and debentures payable in each of the next five years are as follows:

	Loans to units	Debentures payable
2012	$ 96,508,559	$ 96,508,410
2013	92,546,133	92,552,397
2014	77,427,587	77,428,122
2015	73,271,212	73,267,692
2016	73,148,045	73,139,215

3. Debentures payable:

The debenture debt outstanding at March 31, 2011 totaling $756,510,927 (2010 – $728,299,838) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exceptions of Series "AT" and the "FCM" loans which are private placements. Interest is payable semiannually, except for Series "AT", which is payable annually.

Series	Date Issued	Maturity Date Calendar Year	Interest Rate	Amortized Cost of Debt Outstanding	Fair Value
AP*	Jan. 30/98	2012 to 2019	5.875–6.125	$ 23,975,889	$ 26,619,003
AT	May 28/99	2011 to 2015	1.000	843,750	816,153
AX*	May 29/01	2011	6.250	7,022,169	7,076,315
AY*	Nov. 7/01	2011	6.000	4,288,267	4,407,130
AZ*	May 15/02	2011 to 2012	6.125	15,828,797	16,416,470
BA*	Nov. 7/02	2011 to 2017	5.500–6.000	7,792,324	8,258,686
BB*	Jan. 9/03	2011 to 2023	5.913	8,149,599	9,054,247
BC*	May 28/03	2011 to 2018	5.125–5.750	17,511,577	18,466,407
BD*	Oct. 15/03	2011 to 2018	4.750–5.375	8,484,136	8,996,660
BE*	June 10/04	2011 to 2019	5.000–5.750	11,929,642	12,627,139
BF*	Sept. 1/04	2011 to 2024	5.055–5.940	77,000,000	84,570,481
BG*	Nov. 25/04	2011 to 2019	4.670–5.325	12,551,000	13,240,197
BH*	June 1/05	2011 to 2020	4.020–4.880	33,001,000	34,401,543
BI*	Nov. 22/05	2011 to 2020	4.160–4.830	34,290,000	35,771,748
BJ*	June 1/06	2011 to 2021	4.550–5.080	33,305,000	34,943,059
BK*	Oct. 24/06	2011 to 2021	4.135–4.590	39,766,000	41,009,750
FCM-A	Oct. 31/06	2011 to 2016	2.550	498,480	492,678
FCM-B	Mar. 5/07	2011 to 2017	2.620	194,310	191,596
BL*	June 1/07	2011 to 2022	4.380–4.770	48,444,000	50,360,253
BM*	Oct. 17/07	2011 to 2022	4.680–5.210	55,489,000	58,722,216
BN*	Jul. 7/08	2011 to 2023	4.107–5.088	44,750,000	46,952,242
FCM-C	Sept. 30/08	2011 to 2018	2.190	528,987	507,732
BP*	Oct. 24/08	2011 to 2023	3.883–5.480	46,699,000	49,479,712
BQ*	June 1/09	2011 to 2024	1.692–5.644	64,575,000	67,866,052
BR*	Oct 27/09	2011 to 2024	1.679–4.939	40,547,000	40,963,168
BS*	June 29/10	2011 to 2025	1.510–4.875	57,485,000	58,344,780
BT*	Nov 9/10	2011 to 2025	1.550–4.410	61,561,000	60,158,116
				756,510,927	789,913,533
Less current portion (note 2b)				96,508,410	
				$ 660,002,517	$ 789,913,533 **

* Placed directly with the Province of Nova Scotia.

** The fair value of the debentures payable on March 31, 2010 was $755,075,107.

4. Employee obligations:

(a) Public Service Awards:

As at March 31, 2011, the Corporation has recorded a liability in the amount of $53,917 (2010 – $48,917) in respect of the provincial public service award for the employees of the Corporation.

(b) Employee future benefits/pension:

Permanent employees participate in the Nova Scotia Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administrated by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings.

Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2011 were $20,507 (2010 – $10,557) and are recognized as an expense in the year. The Corporation is not responsible for any under funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

5. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2011	2010
Cash	$ 37,526	$ 109,851
Short-term investments	6,403,000	6,252,784
	$ 6,440,526	$ 6,362,635

(b) Change in non-cash working capital:

	2011	2010
Accrued interest receivable	$ 191,788	$ 81,645
Other receivables	10,319	4,417
Accounts payable	(20,398)	(1,362)
Accrued interest payable	(199,134)	(84,549)
	$ (17,425)	$ 151

(c) Supplemental cash flow information

	2011	2010
Interest paid	$ 34,609,895	$ 35,219,536
Interest received	$ 34,612,149	$ 35,220,075

6. Financial instruments:

(a) Fair value

The fair values of cash and cash equivalents, accrued interest receivable, HST receivable, accounts receivable, accounts payable and accrued interest payable are assumed to approximate their carrying amounts because of their short-term to maturity. The fair value of the loans to units (note 2) and debentures payable (note 3) has been calculated using future cash flows (principal and interest) at current market rates available to the Corporation for the same or similar instruments.

The fair value of the loans to units and the debentures payable are determined using Canadian bond market conventions.

The yield to maturity curve by month for the Corporation was estimated using the following assumptions:

a) The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).
b) The Nova Scotia credit spread relative to the Canada yield for each specified maturity term to reflect the Nova Scotia cost of funds as provided by CIBC World Markets.
c) The Corporation's credit spread relative to the Nova Scotia credit spread for each specified maturity term based on the municipal credit spreads provided by CIBC World Markets and RBC Capital Markets.

The Corporation's yield to maturity on an annual basis for specified maturity terms is determined as the sum of the Canada yield, the Nova Scotia credit spread and the Corporation's credit spread. These inputs were used to determine the Corporation's yield to maturity curve by month.

Fair value measurements recognized in notes 2 and 3 are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for assets and liabilities that are not based on observable market data.

Cash and cash equivalents have been categorized as Level 1 financial instruments and the fair value of loans receivable and debentures payable have been categorized as Level 3 financial instruments.

(b) Associated risks:
The Corporation's financial instruments are primarily exposed to interest rate volatility, credit and liquidity risk.

(i) Interest rate risk
Interest rate risk is the risk that the market value of the Corporation's investments and debt will fluctuate due to changes in market interest rates. Interest rate risk is mitigated due to the fact that the Corporation's mandated rate of interest charged on loans to units is directly matched to its cost of borrowing, thereby mitigating the risk of equity erosion. It is management's opinion that the Corporation is not exposed to significant interest rate risk arising from financial instruments.

(ii) Credit risk
Credit risk is the risk that an issuer or counter party will be unable or unwilling to meet a commitment that it has entered into with the Corporation. Due to the existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required. Due to the fact that all loans to units are guaranteed by the Province of Nova Scotia, it is management's opinion that the Corporation is not exposed to significant credit risk arising from financial instruments.

(iii) Liquidity risk:
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through the receipt of payments on the loans to units and short term investments and interest earned on the loans to units and short term investments. These sources of funds are used to satisfy debt service requirements on the debentures and short term loans and to pay operating expenses. In the normal course of business, the Corporation enters into contracts that give rise to commitments for future payments which may also impact the Corporation's liquidity. The Corporation also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. It is management's opinion that the Corporation is not exposed to significant liquidity risk arising from financial instruments.

7. Capital risk management:

The main objective of the Corporation is to provide financing, guaranteed by the Province of Nova Scotia, on approved capital projects at the lowest cost available within acceptable risk parameters and to provide advice and assistance to clients regarding financial management. Increases in funds are a direct result of loan principal receipts, interest income generated from the loans to units and short term investments, recovery of issue costs and the levy of the reserve fee. The main use of funds is to pay outstanding principal and interest on the debenture debt and short term loans, administrative expenses and debenture issue expenses. The loan principal receipts and debenture principal payments are matched in both principal repayments and interest rates, thus reducing the Corporation to interest rate risk and capital erosion. The Corporation carries out its programs in conjunction with the budget approved by the Minister of Service Nova Scotia and Municipal Relations.

8. Trust funds under administration:

The Corporation has no Trust Funds under its administration for the year ended March 31, 2011.